



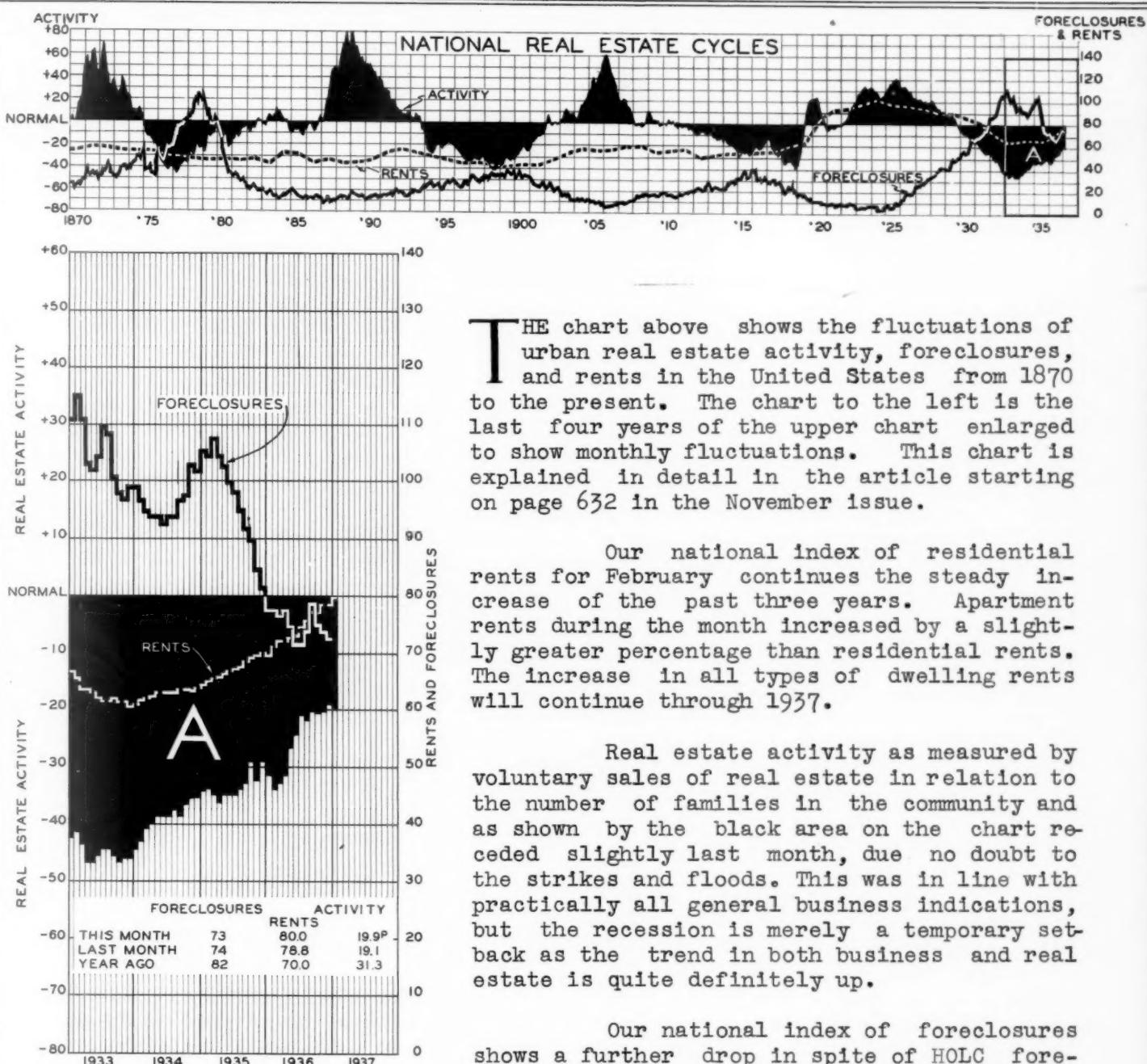
The Real Estate ANALYST

FEBRUARY
1937

Roy Wenzlick
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

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Real Estate Economists, Appraisers and Counselors



THE chart above shows the fluctuations of urban real estate activity, foreclosures, and rents in the United States from 1870 to the present. The chart to the left is the last four years of the upper chart enlarged to show monthly fluctuations. This chart is explained in detail in the article starting on page 632 in the November issue.

Our national index of residential rents for February continues the steady increase of the past three years. Apartment rents during the month increased by a slightly greater percentage than residential rents. The increase in all types of dwelling rents will continue through 1937.

Real estate activity as measured by voluntary sales of real estate in relation to the number of families in the community and as shown by the black area on the chart receded slightly last month, due no doubt to the strikes and floods. This was in line with practically all general business indications, but the recession is merely a temporary setback as the trend in both business and real estate is quite definitely up.

Our national index of foreclosures shows a further drop in spite of HOLC foreclosures. While there is still a tremendous amount of real estate held by the government, this real estate is apparently being liquidated in an orderly fashion and at a slow enough rate to have very little dampening effect on the general market and on the speed of recovery.

by life insurance companies, by banks, and by other unwilling owners; this real estate is apparently being liquidated in an orderly fashion and at a slow enough rate to have very little dampening effect on the general market and on the speed of recovery.

RENTS AND THE PRICE OF GOLD

SINCE the time of the bank collapse in 1933 we have felt that real estate would increase greatly in value. In the Real Estate Analyst for March, 1933, we pointed out that rent increases would lag general price increases and increases in the cost of living. This has occurred, and we are now in the period when rents and values will rise rapidly.

The long chart in this issue shows some of the reasons why we believe rents and values will increase. The heavy line on this chart shows the fluctuations in residential rents in principal cities of the United States from 1850 to the present. This line was explained in the Real Estate Analyst for May, 1936. The dash line on the chart shows the fluctuations in wholesale building material prices over the same period.

It will be noticed immediately that over the entire period of our chart there has been a constant upward drift in these two lines. Undoubtedly a part of the upward trend is due to the increasing percentage which freight rates play in building material prices. In the early period on this chart trees were felled within a comparatively short distance from the point where the lumber was used. Now much of our lumber comes from the West Coast. A part of the increase, however, in residential rents is due to the fact that in today's buildings many features are incorporated which were unknown in the earlier years. The times at which these features came into general use are indicated along the bottom of the chart.

There is a very significant relationship between construction costs, as indicated in a general fashion by building material prices, and rents and values as shown on this chart. Building material prices rose very rapidly in 1862 due to the greenback inflation and the Civil War. Because building material costs increased at that time, new building volume fell off, resulting in a rapid renting of the available space. The shortage of space which developed very quickly caused rents and values to rise until they equaled construction costs. When this happened new building started in large volume in the early seventies. The same situation arose again during the World War. Due to the scarcity of materials because of the war demand and to the credit inflation brought on by heavy government financing, building material prices increased very rapidly. Again new building fell to very low levels as the building during the period was not worth what it cost to build. Because new building was so restricted during this time, a space shortage again developed, causing rents and values to rise until they equaled or exceeded construction costs. This occurred in 1921 and 1922, and the building boom began at that time.

We have recently gone through a similar cycle. Rents and values have fallen for many years, culminating in the very low levels of 1933. Building material prices did not fall quite so far; and due to revaluation, the NRA, and to other causes, rose quite rapidly from June to October of 1933. They then maintained a level plateau for several years but recently have again started a marked upward movement. During this period a house has not been worth what it cost to build and, in spite of every effort on the part of the government to stimulate new building through subsidies, low interest rates, and insured mortgages, the amount of building taking place in most cities has been relatively small. This has resulted again in the development of space shortages of varying degrees of intensity in different communities. This shortage is driving up rents and will continue to

drive them up until again it becomes possible to build a new building in competition with buildings now standing. When that point arrives, new building will not need government stimulation as the profit incentive will insure a tremendous volume of building.

Now let us forget building material prices for a minute and turn to the monetary situation. The black line showing the price of gold per ounce in dollars is read on the scale to the right of the chart. During sixty-seven of the eighty-seven years shown it has remained at the same level of \$20.67 an ounce. During the Civil War the gold standard was suspended and the market price of gold in dollars went up, reaching at one time \$42.00 an ounce. On January 1, 1879, the United States returned to the gold standard at the old figure of \$20.67 an ounce. At no time during this sixteen year period did the government revalue the dollar in gold.

From the standpoint of the man interested in real estate it is quite interesting to note the effect of the increased price of gold during this Civil War period on rents and building material prices. Rents advanced by a larger percentage than the price of gold, but the advance came slower. By the time rents reached the peak the market price of gold had dropped to a point slightly above the old official level.

From 1879 to 1933 the official price of gold in dollars remained constant at \$20.67. From 1879 to 1919 rents showed no radical change other than the increases and decreases brought about by shortages or surpluses of living quarters. However, in 1919 rentals started sky-rocketing.

During the World War there was insufficient gold to finance the tremendous war activity. Europe left the gold standard and used her gold in the purchase of munitions, largely from the United States, and it in turn financed Europe during and after the war with huge loans. The effect both in Europe and America was a tremendous inflation. In spite of the fact that in the United States at least we were theoretically on a gold standard, prices and rents behaved very much as they did on the greenback basis during the Civil War. As the inflation subsided rents and prices dropped back to a position considerably below the trend line. The severity of the present depression would naturally bring this about.

We believe that if the dollar had not been revalued rents would have dropped farther than they did before they recovered, and that then they would have oscillated above and below the trend line AB shown on our chart. Rents permanently on this level would have required a continued liquidation of real estate. Our pessimism prior to 1933 was based on these facts. As soon as revaluation seemed certain we turned optimistic.

But what of the future? It seems to us that the best answer to this question can be given after studying the relationship of the price of gold to rents during the period of our chart. While we are not so naive as to suppose that the only factor affecting rents or the general price level is the number of grains of gold in the dollar, still we are confident that, the other factors remaining constant, the halving of the gold content of the dollar would tend to double prices as soon as the velocity of turnover of money and credit increased sufficiently with the recovery.

Putting it in another way, the rent trend line on our chart could be likened to a strand of rubber stretched between two points A and B.

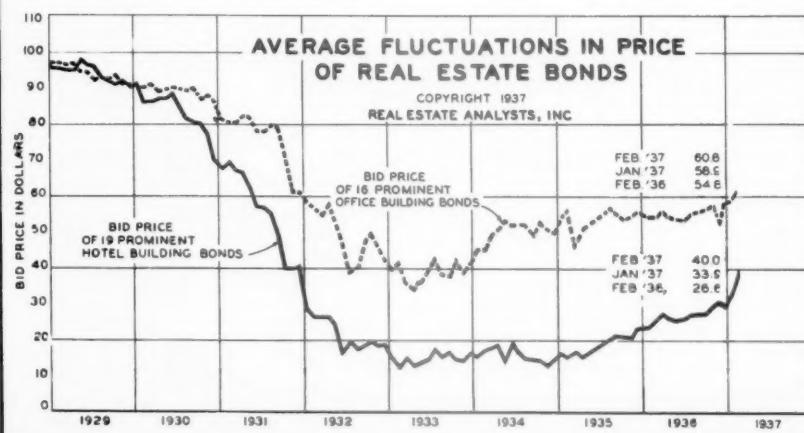
Various forces in the different years have pulled up or down on the trend. As a housing shortage developed, the unusual demand for space pulled the line higher; but as soon as sufficient accommodations were built, it snapped back to its normal position. The doubling up of families with the resulting contraction of space requirements in the depression of the nineties pulled the line considerably lower at that time. In the 1919 to 1929 period two forces were pulling up the line: first, a very real shortage of houses; and second, the tremendous credit inflation, referred to above, which exerted such a tremendous pull that many people believed that the rubber strand had been permanently stretched, had lost its elasticity, and would not return to its former level. By 1929 the forces which had been exerting the upward pull had lost their potency and, much to the surprise of those who had confidently proclaimed that the greater efficiency with which gold was used had permanently raised the price level, prices and rents dropped to pre-war gold trends.

In February, 1934, we said that we believed that the change in the price of gold together with normal recovery would eventually raise the rent trend line to the new position indicated by the XY line on our chart. We said then and we repeat now that we do not mean that rents will immediately rise to this level. We do mean that our rubber trend line is now stretched between the points X and Y and that it is exerting a tremendous pull upward on building material prices and rents. This pull will bring rents to the new level and probably past it during the coming boom.

FARM FORECLOSURES

THE percentage of farms lost to the owners through foreclosure, bankruptcy, or tax sales declined in 1936 in comparison with the last few years but still amounted to a rate of 2.6% of all farms. Less than one-fourth of these were lost in tax sales, although high tax rates were undoubtedly responsible for many foreclosures and bankruptcies. The percentages of farms lost in the United States by years from 1933-1936 are shown in the following table. These percentages charted by states are shown on page 685.

	% of Farms Lost Through Tax Sales	% of Farms Lost Through Foreclosure, Bankruptcy, or Tax Sales
1933	1.5	5.4
1934	1.1	3.9
1935	0.7	2.8
1936	0.6	2.6



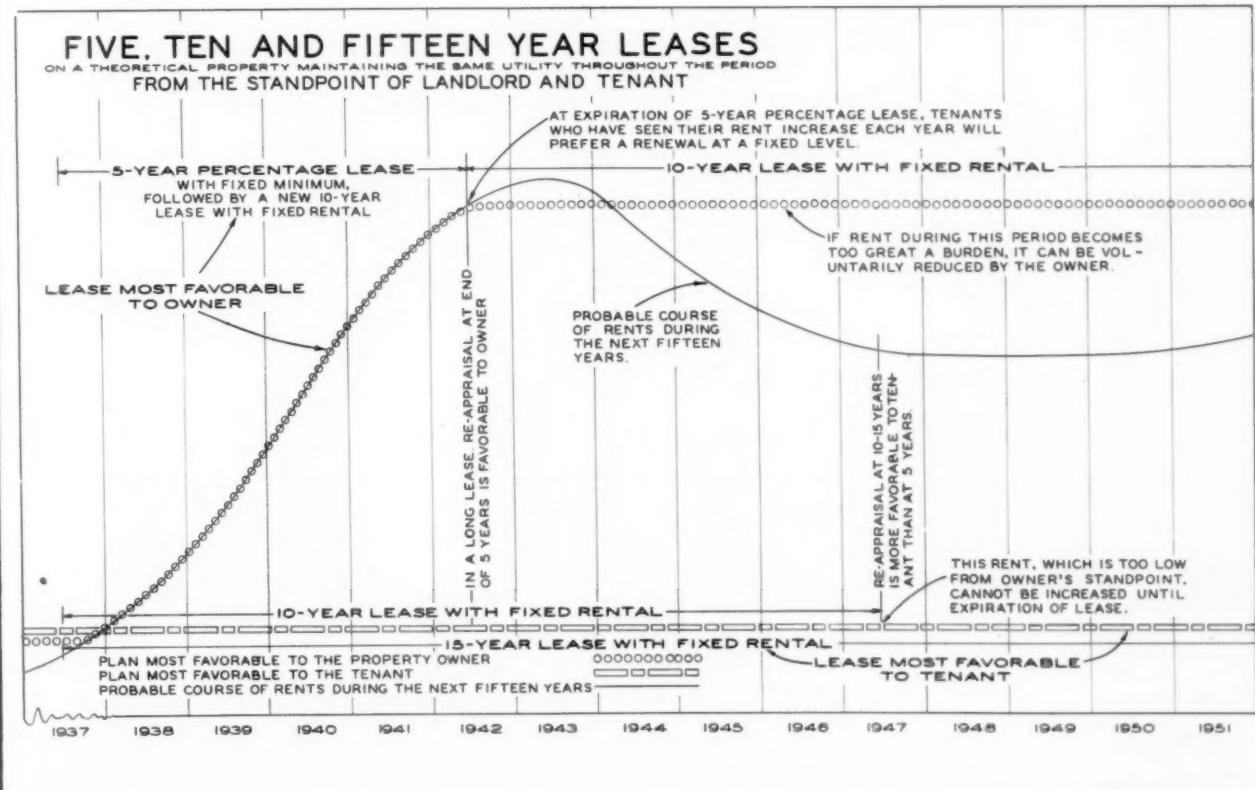
THE chart to the left shows the fluctuations in the bid prices of real estate bonds. The upward trend of the last two years of hotel bonds was accentuated this last month. Office building bonds also have shown some upward movement during the last three months.

HOW LONG SHOULD A BUSINESS LEASE BE?

THE commercial or industrial tenant who expects to occupy the same space year after year should make as long a lease as can possibly be secured. If the lease carries a clause providing for revaluation at some time in the future, it will be to the advantage of the tenant to have the property revalued in a depression rather than a boom year. A tenant should avoid, if at all possible, a lease running for five years or subject to re-appraisal at the end of five years, as we believe that in five years from now we will be in the midst of a tremendous real estate boom, when the owner would ask large increases in rent to renew leases expiring at that time. Leases expiring in ten to fifteen years will probably hit a business recession after the boom has run its course and can probably be renewed at a much lower figure.

On the other hand, the most favorable lease for the landlord would be a percentage lease for five years, as during the next five years increasing prices and volume of sales would send his rent higher than any amount he could contract for now. In those lines of business where it is impossible to draw percentage leases, leases for either five years or with a re-appraisal at the end of five years, with an annual increase in the rent each year for the next five years, would be the most desirable. At the end of five years we believe that boom conditions will enable the landlord to get renewal terms more favorable than he could otherwise get.

On the chart below we have tried to give a graphic picture of present expectations for the next fifteen years and how these probabilities will affect lease expirations. Wars or wild inflations might change these periods, but in view of present circumstances these deductions seem probable and the best guess which can be made from known factors.



190
180
170
160
150
140
130
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0

INDEX - RENTS AND MATERIAL PRICES

RESIDENTIAL RENTS, BUILDING MAT AND THE DOLLAR PRICE OF 1850-1937

BUILDING MATERIAL PRICES ARE CHARTED
FROM FIGURES COMPILED BY WARREN AND
PEARSON, 1850-1889; U.S. BUREAU OF LABOR
STATISTICS, 1890-1937

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REAL ESTATE ANALYSTS, INC.
SAINT LOUIS

OFFICIAL PRICE OF GOLD - \$20.67
PER OUNCE

MARKET PRICE OF AN OUNCE
IN DOLLARS

A

GOLD STANDARD SUSP
(GREENBACK INFLAT)

NO PLUMBING IN HOUSE

HYDRANT IN KITCHEN

GAS

1850 1855 1860 1865 1870

BUSINESS ACTIVITY IN THE UNITED STATES FROM INDEX NUMBERS COMPILED BY COL. LEONARD P. AYRES

NORMAL

+30

+20

+10

0

-10

-20

-30

-40

CALIFORNIA GOLD
INFLATION & PROSPERITY

PANIC
OF 1857

SECESSION
DEPRESSION

PRIMARY
POST-WAR
DEPRESSION

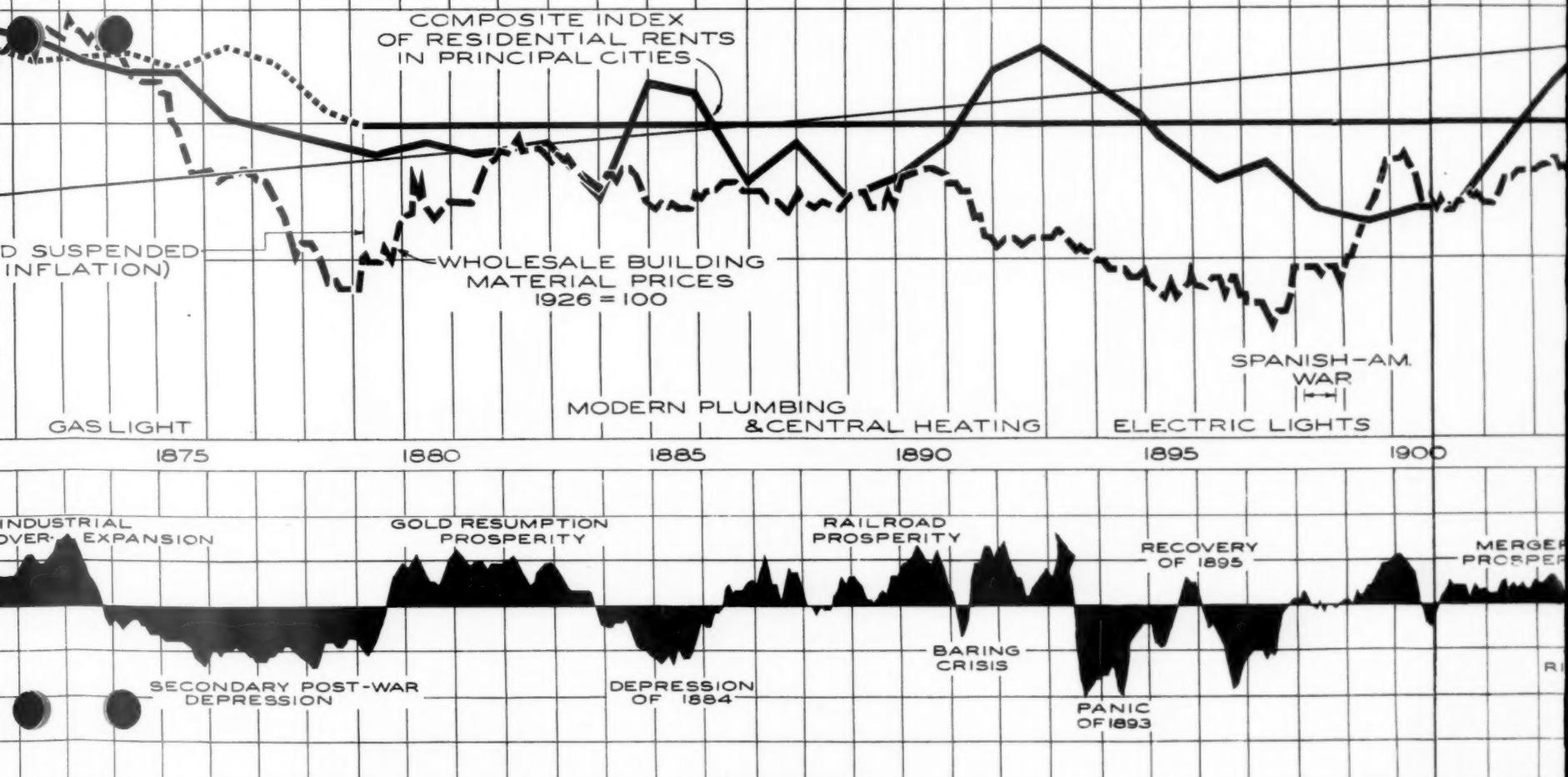
INDUSTRIAL
OVER-EX

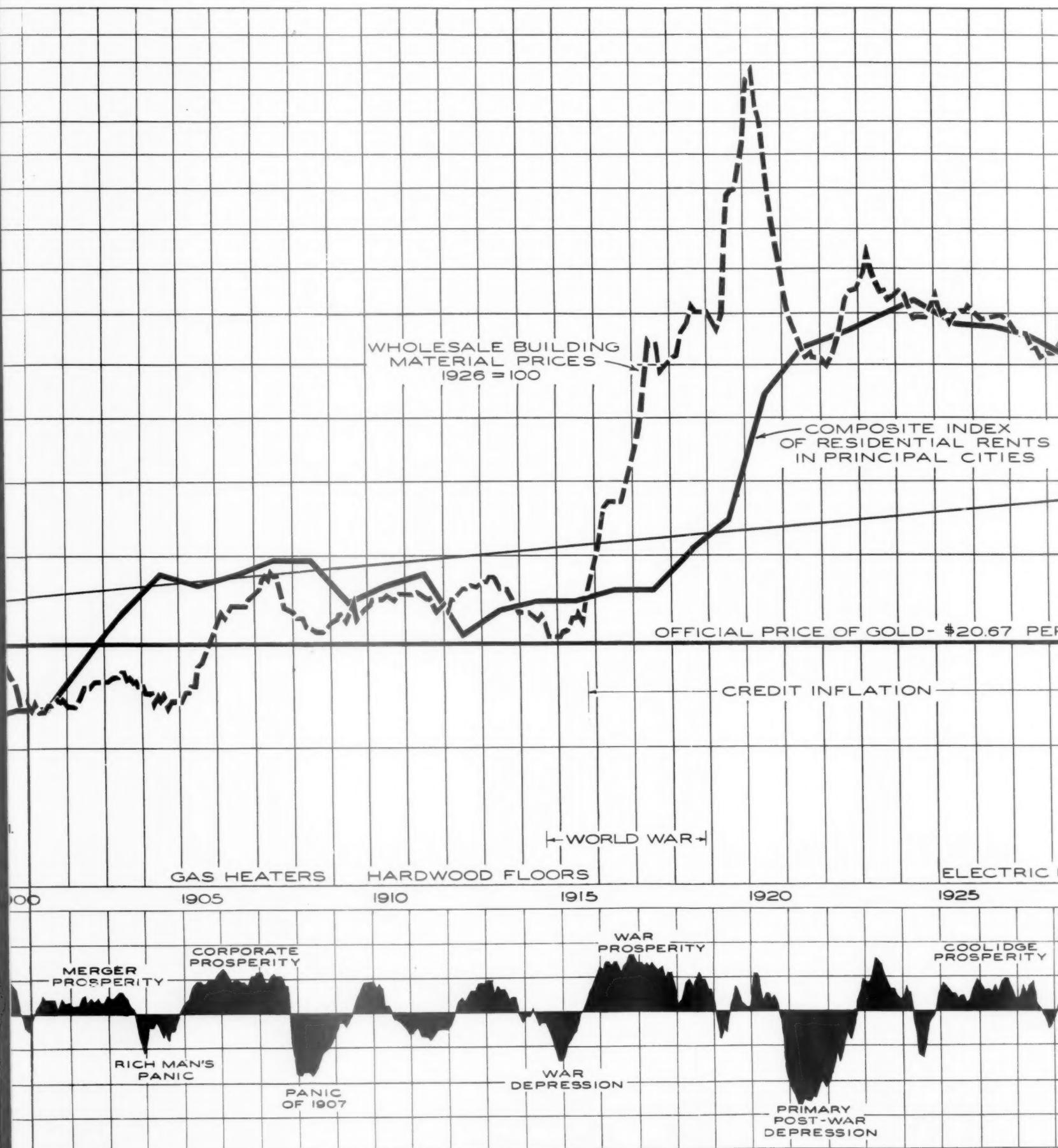
MATERIAL PRICES OF GOLD

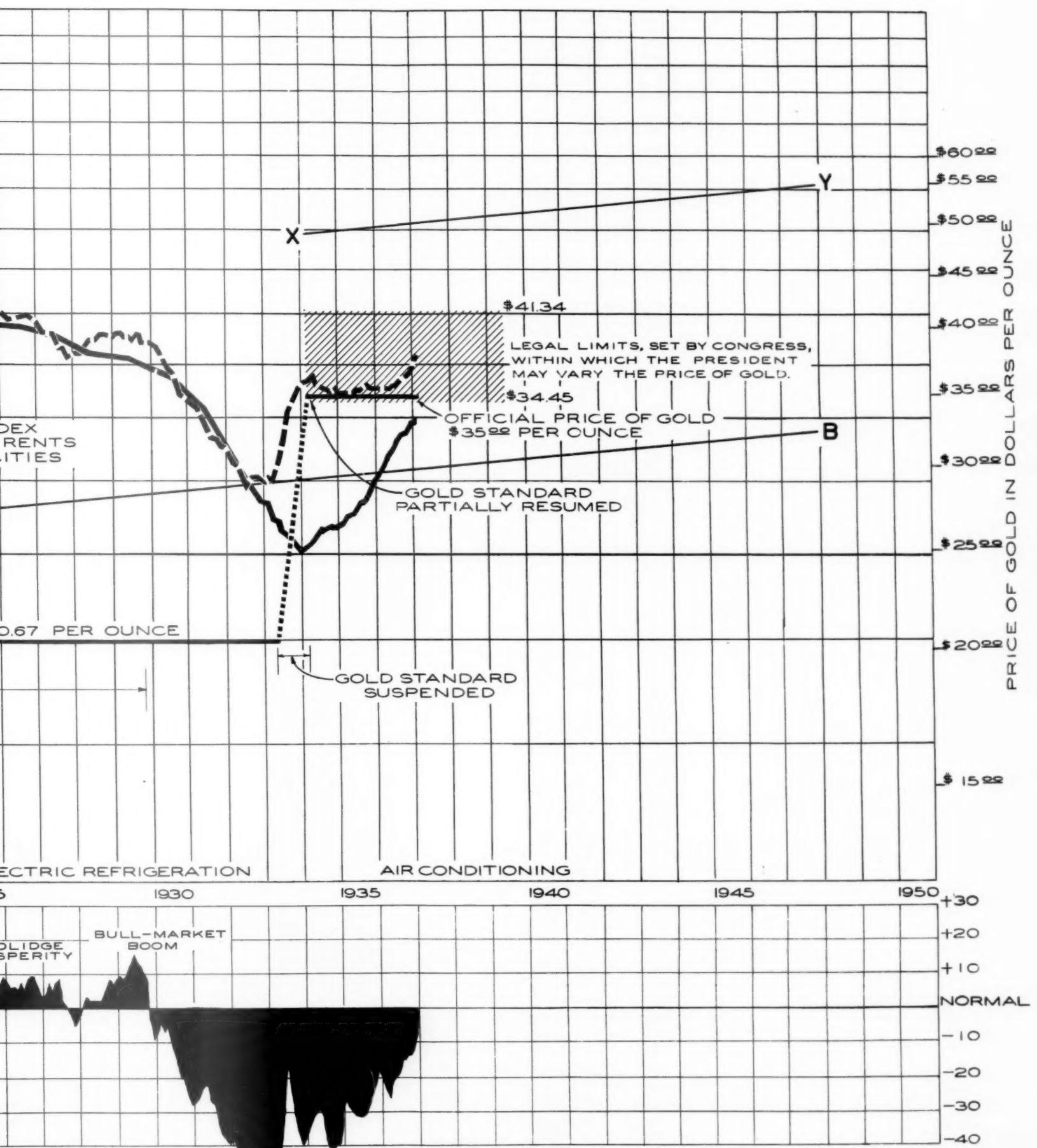
CHARTED
REN AND
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, INC.

AN OUNCE OF GOLD
DOLLARS



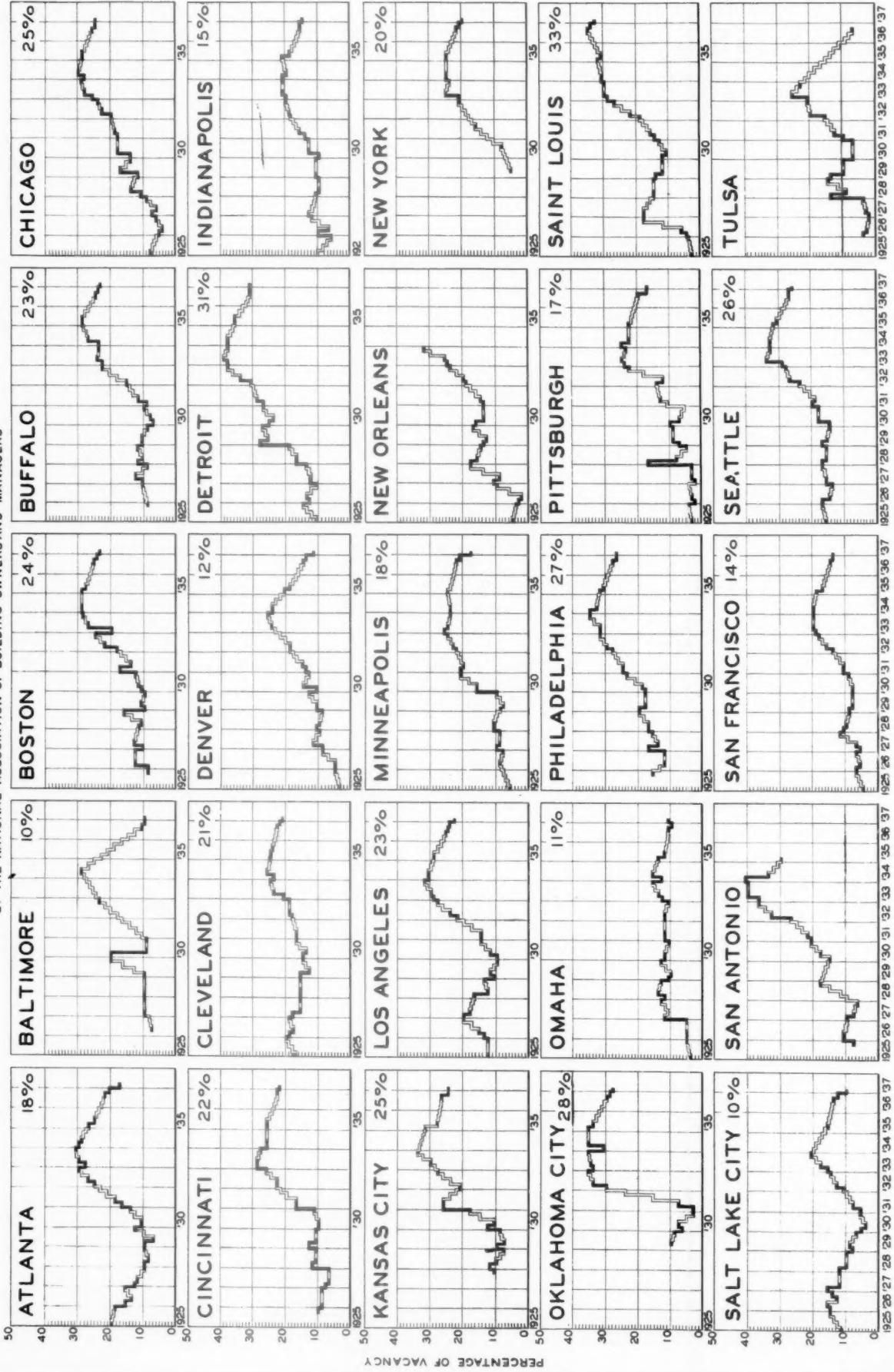




OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

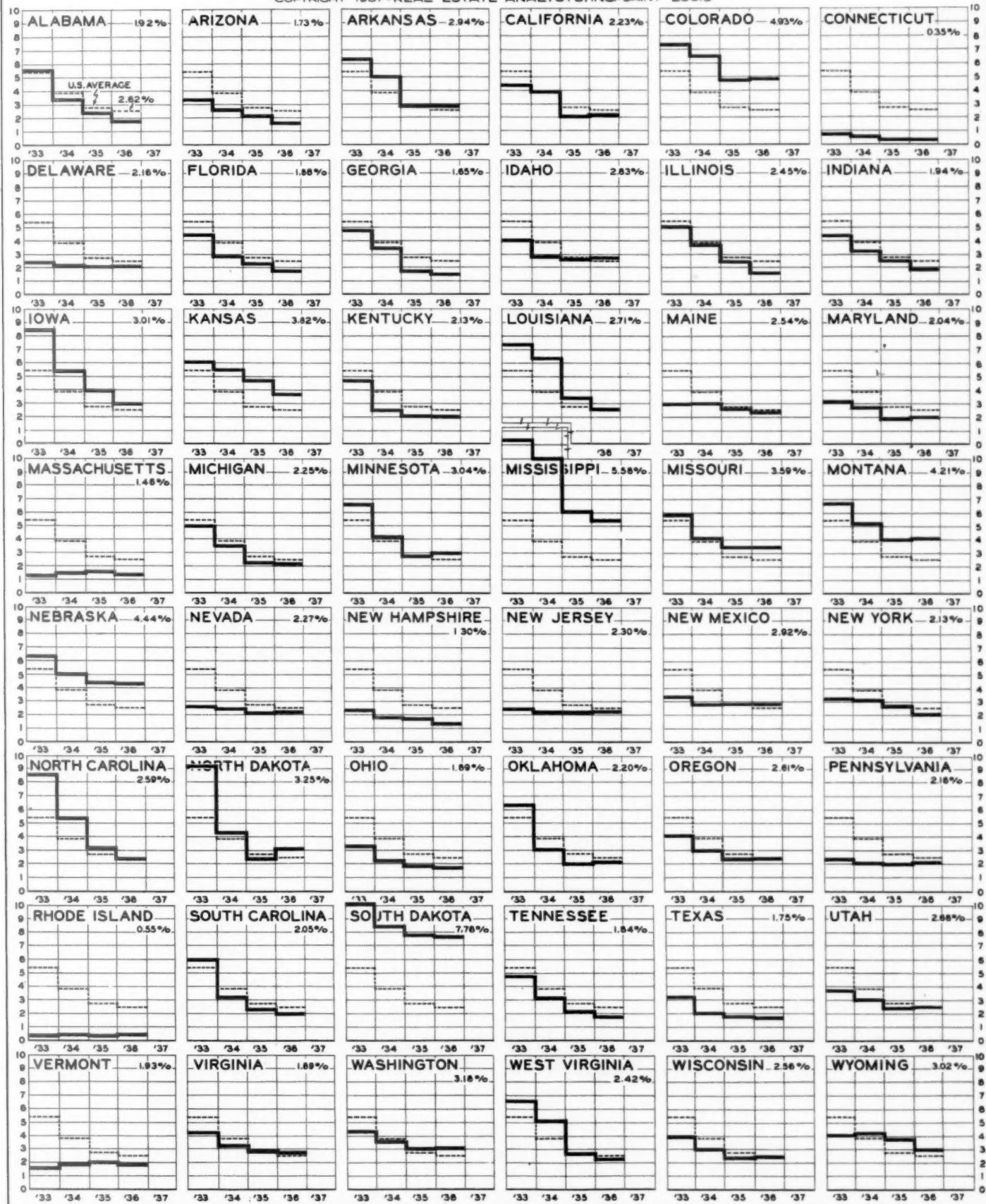
CHARTED BY REAL ESTATE ANALYSTS, INC., SAINT LOUIS, FROM DATA FURNISHED

BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS AND MANAGERS



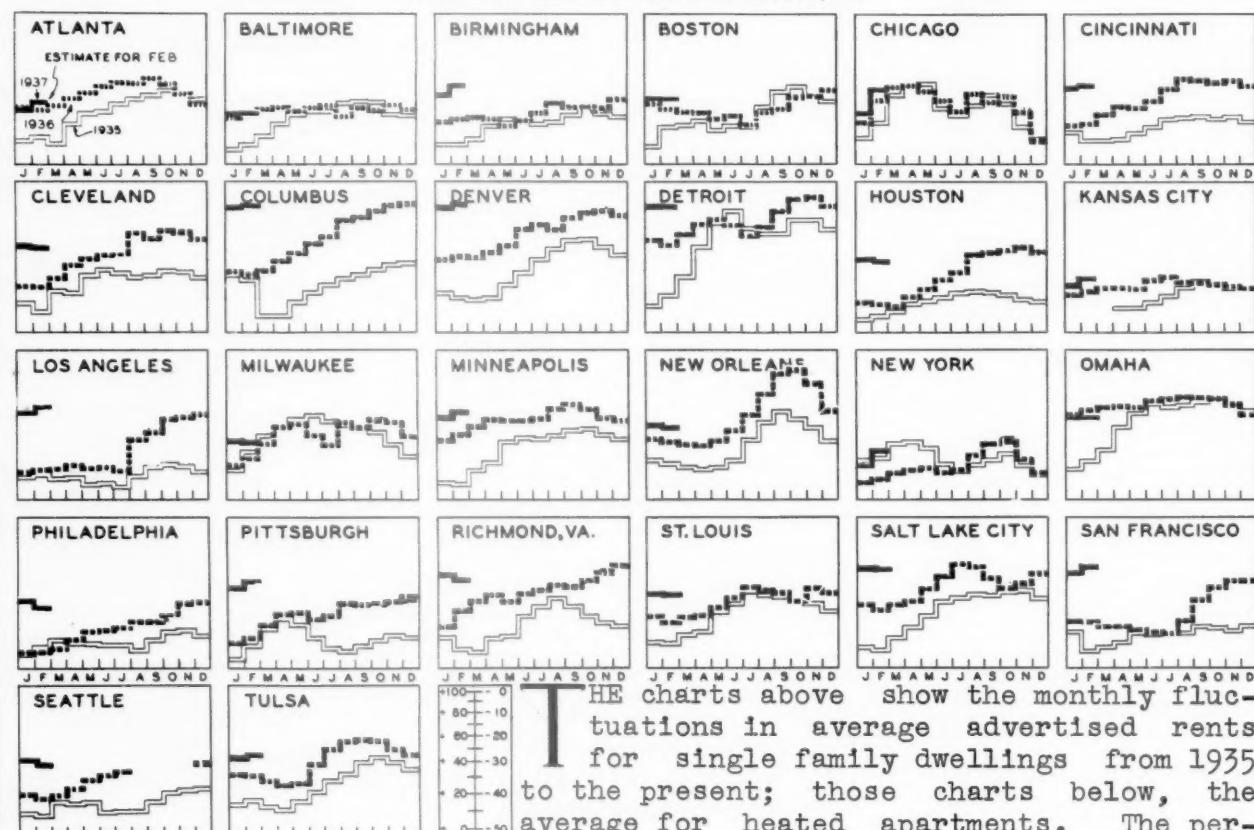
PERCENTAGE OF ALL FARMS LOST THROUGH FORECLOSURE, TAX SALES OR BANKRUPTCY

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AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS 1935-1937

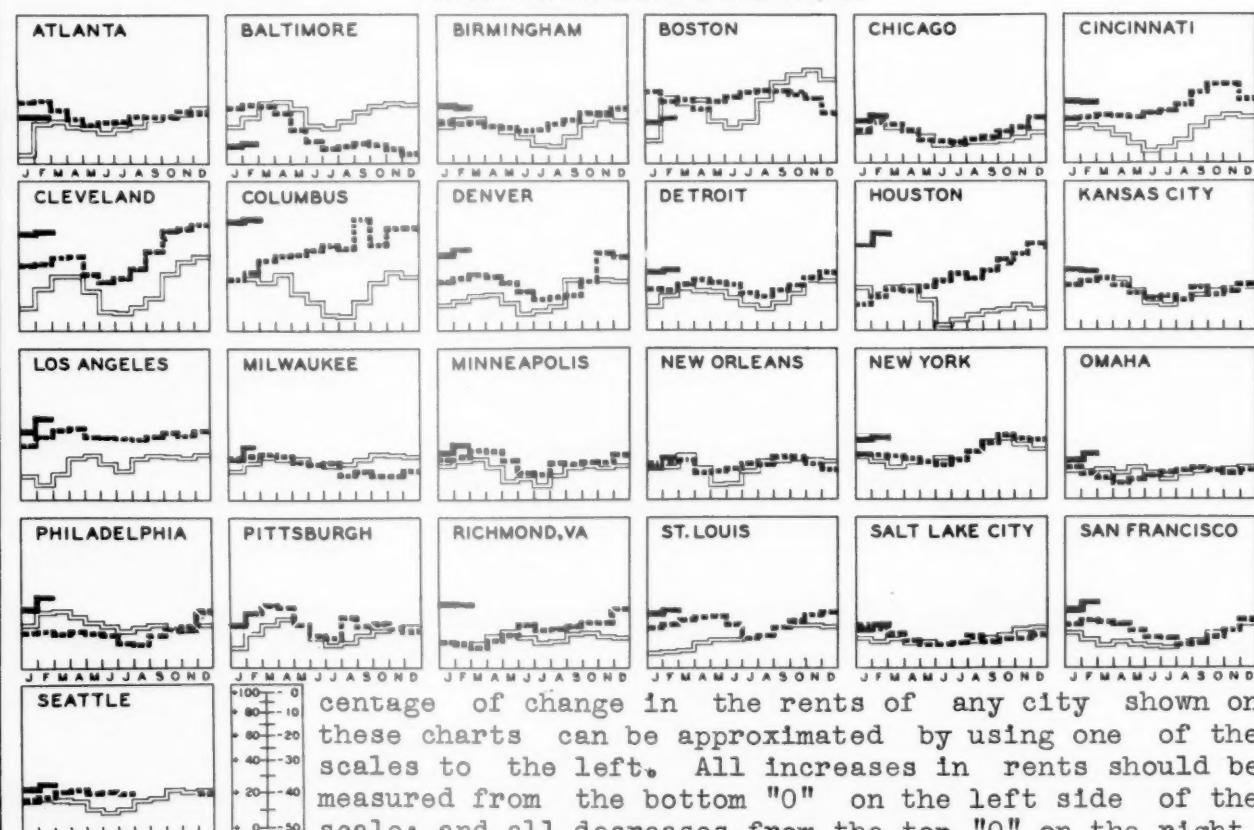
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THE charts above show the monthly fluctuations in average advertised rents for single family dwellings from 1935 to the present; those charts below, the average for heated apartments. The per-

AVERAGE ADVERTISED APARTMENT RENTS 1935-1937

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percentage of change in the rents of any city shown on these charts can be approximated by using one of the scales to the left. All increases in rents should be measured from the bottom "0" on the left side of the scale; and all decreases, from the top "0" on the right.

ADVERTISED RENTALS ON DWELLING UNITS

THE Real Estate Analyst computes the average advertised rents of single family dwellings and heated apartment units each month in the twenty-six metropolitan cities listed below. The figures given are average rents per month per room for all units of each type, large and small, advertised in the classified columns of the leading newspapers of each city. The average of all places advertised for rent will vary considerably from month to month due to the inclusion some

months of a larger number of either high or low priced units. See the special note on page 663 of the January, 1937, Real Estate Analyst for an explanation of certain peculiarities of these figures.

The February figures are preliminary, based on the advertisements appearing during the first two weeks of the month. In a majority of the cities these preliminary figures are above the final figures for February, 1936.

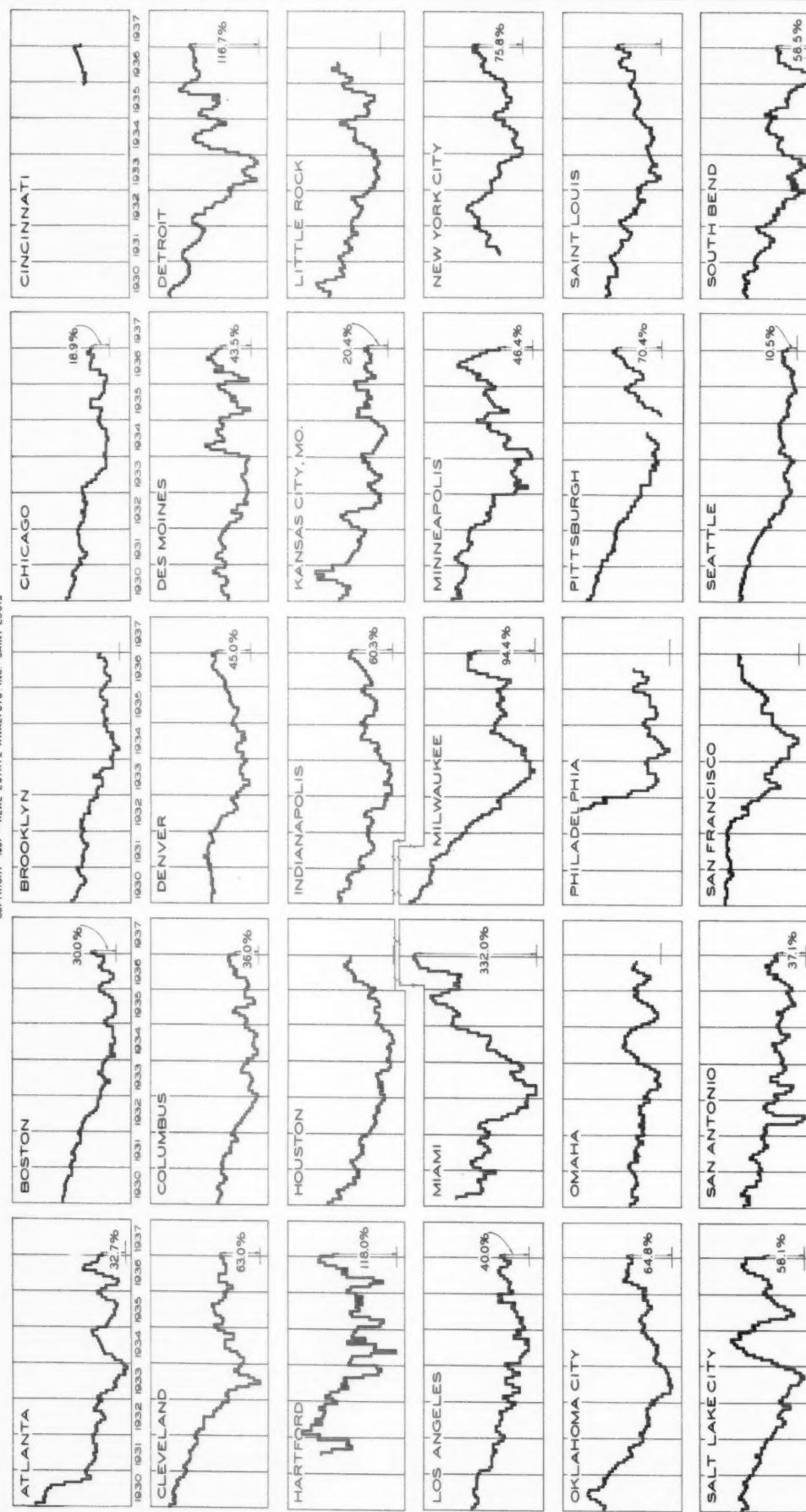
1936													1937		
SINGLE FAMILY DWELLINGS	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	*Feb.		
Atlanta	\$6.59	\$6.71	\$6.97	\$7.15	\$7.39	\$7.51	\$7.50	\$7.65	\$7.43	\$7.10	\$6.75	\$6.64	\$6.87		
Baltimore	5.82	5.95	5.97	5.89	5.99	6.02	5.71	5.94	5.93	6.05	5.95	5.80	5.80		
Birmingham	5.03	5.06	5.03	4.87	5.00	5.18	5.43	5.33	5.30	5.29	5.56	5.64	5.83		
Boston	7.27	7.17	7.15	6.93	7.04	6.72	7.16	7.24	7.71	7.74	7.70	7.26	7.26		
Chicago	9.66	10.32	10.37	10.11	9.63	9.12	9.96	9.60	9.80	9.10	7.86	9.06	10.02		
Cincinnati	7.96	8.35	8.68	8.65	8.93	9.48	9.93	9.90	9.81	9.83	9.50	9.48	9.53		
Cleveland	7.56	7.88	8.40	8.67	8.83	8.86	9.84	9.55	9.95	9.73	9.40	9.06	8.96		
Columbus	5.36	5.44	5.71	5.95	6.23	6.42	6.98	7.03	7.35	7.53	7.53	7.49	7.53		
Denver	5.84	5.82	5.96	6.17	6.67	6.80	6.65	7.05	7.18	7.26	7.14	7.36	7.44		
Detroit	7.74	8.12	8.56	8.79	8.51	8.09	8.43	9.11	9.66	9.69	9.25	9.11	9.15		
Houston	6.92	6.84	7.20	7.47	7.81	8.09	8.86	8.90	9.05	9.15	8.75	8.65	8.55		
Kansas City	4.92	5.00	5.00	4.99	5.20	5.28	5.15	5.17	5.05	4.94	4.98	5.02	5.19		
Los Angeles	8.72	8.74	8.95	8.80	8.81	8.69	10.15	10.36	10.97	11.05	11.12	11.13	11.42		
Milwaukee	7.35	7.90	8.59	8.71	8.26	7.88	8.80	8.55	8.81	8.70	8.25	8.04	7.93		
Minneapolis	6.22	6.49	6.69	6.67	6.67	6.71	7.05	7.20	7.05	6.71	6.71	6.75	6.90		
New Orleans	5.36	5.28	5.25	5.38	5.66	6.11	6.75	7.41	7.53	7.05	6.11	5.58	5.52		
New York	11.11	11.40	11.69	11.71	11.40	11.61	12.50	13.23	13.42	12.12	11.52	11.97	12.71		
Omaha	6.27	6.34	6.38	6.36	6.57	6.62	6.69	6.66	6.65	6.32	6.04	5.98	5.99		
Philadelphia	5.46	5.52	5.79	6.01	6.03	6.11	6.30	6.30	6.44	6.88	6.99	6.92	6.68		
Pittsburgh	6.98	7.41	7.84	7.89	7.67	7.78	8.25	8.20	8.20	8.25	8.43	8.80	8.95		
Richmond	6.65	6.98	7.18	6.96	7.21	7.32	7.52	7.46	7.69	7.98	8.25	7.84	7.64		
Saint Louis	6.27	6.43	6.48	6.72	7.07	7.42	7.31	7.20	6.86	7.29	7.15	7.06	7.04		
Salt Lake City	5.33	5.49	5.58	5.91	6.30	6.70	6.60	6.26	5.97	6.11	6.38	6.52	6.49		
San Francisco	7.54	7.36	7.36	7.24	7.16	7.11	7.55	8.34	8.86	9.15	9.10	9.35	9.60		
Seattle	5.45	5.51	5.70	5.96	6.09	6.19	x	x	x	x	6.40	6.58	6.40		
Tulsa	6.74	6.56	6.42	6.48	7.11	7.67	7.97	8.00	7.96	7.64	7.41	7.35	7.40		
Atlanta	10.91	10.42	10.00	9.71	9.82	9.89	10.13	10.10	10.33	10.14	10.37	10.01	9.99		
Baltimore	12.05	12.02	11.65	10.74	10.09	9.79	9.88	9.94	9.75	9.63	9.56	9.94	10.06		
Birmingham	8.54	8.57	8.45	8.39	8.26	8.27	8.52	8.68	8.98	9.01	9.28	9.26	9.15		
Boston	11.55	11.68	11.13	11.59	11.80	12.05	12.20	12.18	11.97	11.08	10.38	9.73	9.95		
Chicago	12.26	12.14	11.86	11.25	11.23	11.14	11.32	11.47	11.66	12.08	12.28	12.58	12.85		
Cincinnati	11.36	11.47	11.45	11.40	11.57	11.71	12.01	12.81	13.30	13.32	12.43	12.20	12.13		
Cleveland	10.49	10.77	10.82	9.97	9.60	9.79	10.25	11.10	12.25	12.46	12.49	12.17	12.20		
Columbus	9.38	9.94	10.16	10.20	10.41	10.62	10.50	12.13	10.74	11.59	11.60	12.13	12.25		
Denver	11.02	11.24	11.16	10.76	10.31	9.94	10.02	10.92	10.86	12.59	12.40	12.43	12.62		
Detroit	10.40	10.70	10.93	10.79	10.65	10.27	10.05	10.32	10.68	11.08	11.28	11.32	11.43		
Houston	8.29	8.59	8.53	8.70	8.95	9.28	9.03	9.31	9.87	10.12	10.58	10.50	11.22		
Kansas City	7.00	7.11	6.86	6.61	6.48	6.51	6.40	6.79	6.58	6.76	6.99	7.33	7.39		
Los Angeles	12.31	12.79	12.82	12.33	12.32	12.28	12.21	12.36	12.51	12.42	12.52	12.79	13.49		
Milwaukee	9.95	10.02	9.95	9.64	9.51	9.60	9.02	9.15	8.97	8.96	9.22	9.65	10.22		
Minneapolis	9.29	9.59	9.57	9.13	8.58	8.50	9.00	8.95	9.04	8.95	9.31	9.22	9.55		
New Orleans	8.49	8.53	8.01	8.04	8.17	8.36	8.32	8.67	8.45	8.34	8.11	8.31	8.64		
New York	17.56	17.40	17.20	16.97	16.74	17.02	17.88	18.54	19.30	18.95	18.90	18.84	18.92		
Omaha	10.21	10.00	9.73	9.90	10.11	10.28	10.32	10.37	10.30	10.20	10.42	10.73	11.12		
Philadelphia	13.23	13.08	13.23	13.08	12.94	12.45	12.37	12.98	13.30	13.62	14.58	14.90	15.62		
Pittsburgh	10.51	10.96	10.82	9.93	9.42	9.29	10.28	9.80	9.95	9.65	9.72	9.90	10.60		
Richmond	9.69	9.41	9.75	10.01	10.53	10.29	10.31	10.41	10.52	10.60	11.21	11.50	11.41		
Saint Louis	9.94	10.17	10.37	10.38	9.95	9.26	9.34	9.69	10.04	10.33	10.47	10.29	10.31		
Salt Lake City	9.70	9.50	9.16	8.98	8.98	9.02	9.37	9.10	9.21	9.16	9.29	9.58	9.73		
San Francisco	12.01	11.93	11.83	11.41	11.02	11.01	10.67	10.73	10.96	11.42	12.17	12.63	13.01		
Seattle	10.37	10.53	10.60	10.50	10.56	10.46	x	x	x	x	10.32	10.65	10.80		

*Preliminary

xNewspaper strike

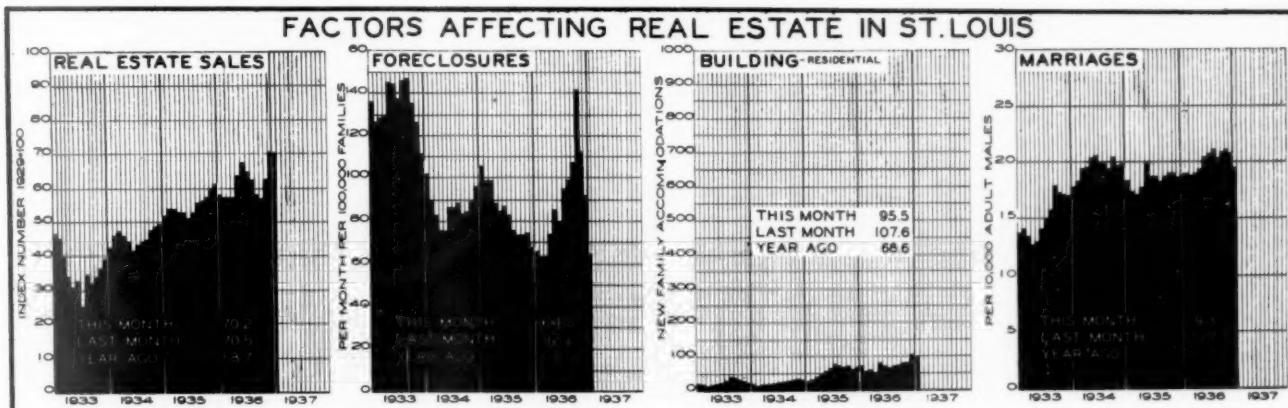
REAL ESTATE TRANSFERS IN PRINCIPAL CITIES 1930-1937

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NOTE: CURRENT FIGURES WERE NOT AVAILABLE FOR THIS ISSUE IN THE CITIES WHERE NO PERCENTAGE FIGURES ARE SHOWN.

THE charts above show the monthly fluctuations in real estate transfers in cities scattered throughout the United States. The percentage figure shown on each chart gives the relationship of present real estate activity in that city to the lowest point reached during the depression.



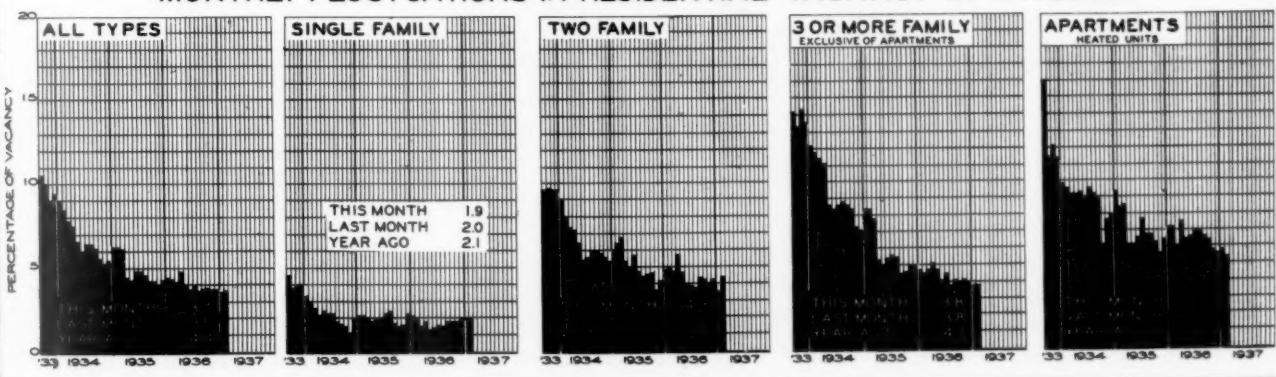
REAL Estate Analysts, Inc., has made an intensive study of Greater Saint Louis on the assumption that an exhaustive study over a long period of all factors affecting real estate in one representative community is often of greater value in determining the sequence of events in collapse and recovery than is a general study of the entire country.

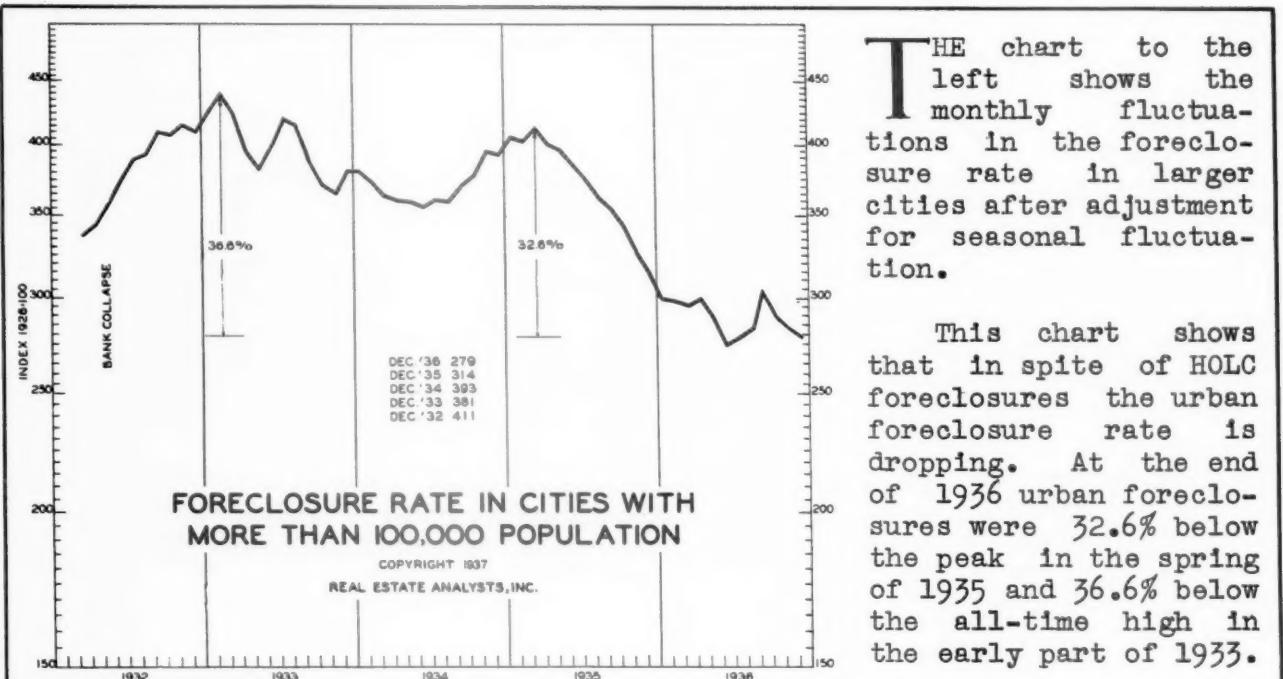
January, 1937, in most parts of the United States showed sizable recessions from the very excellent showing of December. This was only slightly true in Saint Louis. Real estate sales were practically on the same level as during December; the foreclosure rate, in spite of HOLC, showed a radical drop; new building, while slightly below December, was considerably above a year ago. Marriages dropped, reflecting the shock to confidence in the future of the automobile strike and the floods.

Total residential vacancy in Saint Louis increased slightly in the period from January 6 to February 8. The number of vacant residential units for February of four years is shown in the table below in contrast with November, 1932.

Date	Vacancies	Vacancy %
November, 1932	28,207	12.8
February, 1934	18,650	8.3
February, 1935	13,900	6.2
February, 1936	9,450	4.3
February, 1937	8,250	3.7

MONTHLY FLUCTUATIONS IN RESIDENTIAL VACANCY IN ST. LOUIS





THE chart to the left shows the monthly fluctuations in the foreclosure rate in larger cities after adjustment for seasonal fluctuation.

This chart shows that in spite of HOLC foreclosures the urban foreclosure rate is dropping. At the end of 1936 urban foreclosures were 32.6% below the peak in the spring of 1935 and 36.6% below the all-time high in the early part of 1933.

RESIDENTIAL BUILDING BY REGIONS

THE charts below show the volume of residential building in various regions by months for 1935 and 1936. The tall chart at the right is drawn to the same scale as the smaller charts and compares the present volume of building in the United States with the volume for a number of past years. On each chart the volume of new building is expressed as the number of new family accommodations provided per month for each 10,000 families.

